

Plan 3 Vesting

Background

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their plan after 10 years of service or after 5 years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution portion of their plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

Committee Activity

Presentations:

June 15, 2004 - Executive Committee
November 9, 2004 - Full Committee

Proposal:

November 9, 2004 - Full Committee

Recommendation to Legislature

Reduce the required length of service for defined benefit vesting in the PERS, SERS and TRS Plans 3 from 10 years to 5 years for all members.

Staff Contact

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Select Committee on Pension Policy

Plan 3 Vesting

(October 25, 2004)

Issue	Reduce the required length of service for vesting in the defined benefit portion of the PERS, SERS and TRS Plans 3 from 10 years to 5 years.
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Members Impacted	As of the most recent valuation, 53,500 Plan 3 members were not vested. Non-vested members included those who had less than 10 years of service; those who were not vested in Plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS; and those who did not have 5 years of service including 12 months after age 54. Any of these non-vested members would be affected by this proposal unless they leave employment or become vested prior to the effective date of any legislation to change the vesting period.
Current Situation	New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after 10 years of service, or after 5 years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution portion of their Plan.
History	SHB 1298 was introduced in the 2003 legislative session. The bill would have shortened the defined benefit vesting period in the Plans 3 from 10 years to 5 years. The bill passed the

House, but was not heard in the Senate. In 2004 similar legislation was introduced as SB 6247/HB 2540. It passed in the Senate but died in House Appropriations.

Policy Analysis

The Plans 3 are hybrid plans. The defined benefit portion of these plans (the portion to which the 10-year vesting period applies) uses a formula to determine the monthly retirement benefit that a member will receive for life: $1\% \times \text{Average Final Compensation (AFC)} \times \text{years of service credit}$. The defined benefit is funded entirely by employers. When members leave employment prior to becoming vested, they forfeit these employer contributions. On the other hand, the defined contribution portion of the Plans 3 is funded entirely by employees. Employees are immediately vested in their own contributions.

When the Plans 3 were on the drawing board, one of the concerns was the small size of the defined benefit that members would receive if they earned only a modest amount of service credit before full retirement. Plan 2 members receive 10% of average final compensation (AFC) upon vesting (5 years \times 2% per year). This 10% standard was used for the defined benefit portion of the Plans 3. Setting the vesting period in the Plans 3 to 10 years guaranteed vested members 10% of their AFC as a minimum defined benefit (10 years \times 1% per year).

In the design of the Plans 3, the long vesting period for the defined benefit portion of the pension was offset by the fact that Plan 3 members were immediately vested in the defined contribution portion of their benefit. Since the defined benefit would be such a small portion of the total benefit during the early years of employment, and since members were immediately vested in their employee contributions, it was felt that those who left employment before the end of the vesting period would not be losing such a significant amount of their total retirement benefit that the longer vesting period would adversely affect employment behavior.

The following table illustrates the value of the defined benefit (DB) portion of Plan 3 for members who entered the plan at various ages and separated from service after 5 years. These examples assume an average final compensation of \$30,000 and an annual inflation rate of 3.5%.

Future Value of Plan 3 Benefit, Adjusted for 3.5% Assumed Inflation
(Defined Benefit payable at 65 = 1% x \$30,000 x 5 years of service)

Entry Age	Age at Separation	DB Benefit at 65	Future Value*	% of DB
25	30	\$1,500	\$450	30%
35	40	\$1,500	\$635	42%
45	50	\$1,500	\$895	60%
55	60	\$1,500	\$1,263	84%

**Reduced for 3.5% assumed annual inflation from age at separation to age 65.*

The table illustrates that for those who are hired at earlier ages, the future benefit that is forfeited is smaller after adjustment for assumed inflation from age at separation to age 65. This is consistent with the rationale behind the 10-year vesting period, and the reason why the vesting period was lowered for older employees. The higher the plan entry age, the greater the percentage of the future benefit that would be forfeited at separation as the result of a failure to vest.

It is unknown whether members actually analyze their own retirement benefits at this level of detail, or how much the vesting period is a factor in employment decisions. Theoretically, shorter vesting periods support attraction of new employees. Longer vesting periods support retention of employees.

Another retention incentive in the Plans 3 is the provision that members who remain in the Plans 3 for at least twenty-service credit years receive the additional benefit of an “inflation protector.” These members receive an increase in the defined benefit portion of their retirement allowance of 3% per year, compounded for each month from the date of separation to the date that the retirement allowance commences.

Comparison with Washington Plans and Other States

The 10-year vesting period for the defined benefit portion of the Plans 3 is the longest among the plans administered by Washington State. The Plans 1 and 2, which are all defined benefit and not hybrid plans, have 5-year vesting periods.

The national trend in retirement plans is toward shorter vesting periods due to the increasing mobility of the workforce and the trend toward multiple careers. However, numerous state and municipal retirement plans still use a 10-year vesting period. In the 2002 survey from the Public Pension Coordinating Council covering 276 public retirement plans, a total of 96 plans had vesting requirements of 10 years or more. More than 40 of those plans were administered by twenty-five states or territories, in addition to Washington. In comparison, 132 plans had vesting requirements of 5 years or less. The survey results are attached.

Options

The proposal to lower the vesting period for the defined benefit portion of the Plans 3 from 10 to 5 years has been considered and rejected during the last two legislative sessions. With that in mind, the Committee may wish to consider alternative approaches to the issue. One possibility is that the proposal was rejected due to cost. An option for lowering the cost would be to develop proposals for 5-year vesting in the higher age brackets when the vesting period is more likely to affect employment behavior. Currently 5-year vesting is available in the Plans 3 if 12 months of a member's service is earned after attaining age 54. That age could be lowered.

If the SCPP wishes to pursue the issue of Plan 3 vesting, it might be useful to study the probability of member termination at various ages as well as the value of the defined benefit component of the Plans 3 at various ages in order to better assess whether any changes to the vesting period might affect employment behavior.

If the Committee determines that the cost of changing the vesting period is prohibitive at this time, another option would be to encourage additional member education. There may be a perception that the longer vesting period for the defined benefit portion of the Plans 3 is a detriment to those who might select Plan 3. However, through additional member education, more new hires may be able to better evaluate the financial implications of the vesting period and better understand the tradeoffs in the design of the Plans 3.

Stakeholder Input

While there has been no opportunity for specific stakeholder input on this issue during this interim, it should be noted that the following organizations have requested in writing that Plan 3 vesting be considered by the SCPP in 2004: the Washington Association of School Administrators, Association of Washington School Principals, and the Washington Education Association.

Executive Committee Recommendation

The Executive Committee heard a report on this issue on June 15, 2004. At that time it was decided that the full SCPP could hear the issue later in the interim, since the issue is not a new one.

Bill Draft

A copy of the draft bill is attached. This bill would reduce the required length of service for vesting in the defined benefit portion of PERS 3, SERS 3 and TRS 3 from 10 years to 5 years.

Fiscal Note

An updated draft fiscal note is attached. The bill would increase contribution rates in the PERS, TRS and SERS Plans 2 and Plans 3, as the cost of this Plan 3 benefit enhancement is shared equally among Plan 2/3 employers and Plan 2 employees. This cost-sharing approach is defined under state law in the actuarial funding chapter, Chapter 41.45 RCW.

Active Members and Vesting Requirements by Plan

Source: Public Pension Coordinating Council Survey 2002 (2000-2001 data)

ID#	PLAN NAME	Members	Vesting Requirement
0376G	West Virginia Teacher's Defined Contribution Plan	19,000	1/3 after 6 years; 2/3 after 9 years; 100% after 12 years
0020A	PARK EMPLOYEES & RET. BOARD EMPLOYEES ANNUITY AND BENEFIT FUND OF CHICAGO	3,639	10 YEARS
0247A	OAKLAND POLICE & FIRE RETIREMENT FUND	161	10 YEARS
0283A	City Pension Fund for Firefighters and Police Officers in the City of Pembroke Pines	364	10 years
0314C	BISMARCK FIREFIGHTERS RELIEF ASSOCIATION	62	10 YEARS
0376D	West Virginia State Police Retirement Plan□□(Trooper Plan B)	323	10 years
0497B	Macon Water Authority Employee Pension Plan	205	10 years
0672A	New York City Pension Fund -- Subchapter 2	11,477	10 years
0022A	Dukes County Contributory Retirement Plan	932	10 years at age 55
0083A	OKLAHOMA TEACHERS' RETIREMENT SYSTEM	83,024	10 YEARS OF OKLAHOMA SERVICE
0005C	RETIREMENT SYSTEMS OF ALABAMA TEACHERS' PLAN	126,558	10 YEARS OF SERVICE
0010A	TEACHERS' RETIREMENT SYSTEM OF LA - REGULAR EMPLOYEES	87,631	10 YEARS OF SERVICE
0010B	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN B	2,115	10 YEARS OF SERVICE
0010C	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN A	1,067	10 YEARS OF SERVICE
0038A	RETIREMENT SYSTEM FOR SWORN POLICE PERSONNEL	107	10 YEARS OF SERVICE
0015A	CONNECTICUT TEACHERS' RETIREMENT SYSTEM	46,500	10 YEARS OF SERVICE
0016A	PLYMOUTH COUNTY RETIREMENT ASSOCIATION	9,098	10 YEARS OF SERVICE
0017A	MIAMI FIRE FIGHTERS' AND POLICE OFFICERS' RETIREMENT TRUST	1,587	10 YEARS OF SERVICE
0024A	STERLING HEIGHTS POLICE AND FIRE RETIREMENT PLAN	261	10 YEARS OF SERVICE
0064B	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - PUBLIC SCHOOL	32,864	10 YEARS OF SERVICE
0064C	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - JUDICIAL	416	10 YEARS OF SERVICE
0004A	TEXAS MUNICIPAL RETIREMENT SYSTEM	86,203	10 YEARS OF SERVICE
0005A	RETIREMENT SYSTEMS OF ALABAMA EMPLOYEES	75,734	10 YEARS OF SERVICE
0064A	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - GENERAL	72,176	10 YEARS OF SERVICE
0067A	TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY	134,199	10 YEARS OF SERVICE
0068A	POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY	42,430	10 YEARS OF SERVICE
0069A	PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEW JERSEY	277,441	10 YEARS OF SERVICE
0146E	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN E: GENERAL	31,088	10 YEARS OF SERVICE
0071A	LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM	69,680	10 YEARS OF SERVICE
0087A	NEW HAMPSHIRE RETIREMENT SYSTEM - GENERAL PLAN/EMPLOYEES	20,262	10 YEARS OF SERVICE
0087C	NEW HAMPSHIRE RETIREMENT SYSTEM - POLICE PLAN	3,254	10 YEARS OF SERVICE
0087D	NEW HAMPSHIRE RETIREMENT SYSTEM - FIREFIGHTERS PLAN	1,269	10 YEARS OF SERVICE
0120A	CITY OF BOCA RATON GENERAL EMPLOYEES' TRUST	628	10 YEARS OF SERVICE
0131A	MWRD RETIREMENT FUND	2,084	10 years of service
0148A	TEACHERS RETIREMENT SYSTEM OF GEORGIA	191,908	10 YEARS OF SERVICE
0154B	NORTH DAKOTA HIGHWAY PATROL RETIREMENT PLAN	122	10 YEARS OF SERVICE
0156B	WICHITA POLICE AND FIRE RETIREMENT SYSTEM	993	10 YEARS OF SERVICE
0161A	INDIANA STATE TEACHERS' RETIREMENT PLAN	77,870	10 YEARS OF SERVICE
0163A	CHICOPEE RETIREMENT SYSTEM	1,140	10 YEARS OF SERVICE
0168A	FLORIDA RETIREMENT SYSTEM	597,823	10 YEARS OF SERVICE
0181A	MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	312,699	10 YEARS OF SERVICE
0182A	MICHIGAN STATE POLICE RETIREMENT SYSTEM	2,210	10 YEARS OF SERVICE
0185A	MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM	47,778	10 YEARS OF SERVICE
0193A	KANSAS PUBLIC EMPLOYEES RETIREMENT PLAN	142,870	10 YEARS OF SERVICE
0223A	CITY OF ALPENA - GENERAL	48	10 YEARS OF SERVICE
0224A	LA COUNTY METRO TRANSIT AUTHORITY - UTU RIP	3,944	10 YEARS OF SERVICE
0224B	LA COUNTY METRO TRANSIT AUTHORITY - MAINTENANCE EMPLOYEES	2,023	10 YEARS OF SERVICE
0224C	LA COUNTY METRO TRANSIT AUTHORITY - TCU RIP	697	10 YEARS OF SERVICE
0226A	CITY OF MANISTEE EMPLOYEES RETIREMENT SYSTEM	62	10 YEARS OF SERVICE
0255A	OKLAHOMA POLICE PENSION AND RETIREMENT PLAN	3,778	10 YEARS OF SERVICE

0269A	KANSAS CITY (MO) FIREFIGHTERS' PENSION SYSTEM	761	10 YEARS OF SERVICE
0293A	CITY OF MILFORD - BENEFIT PLAN I	700	10 YEARS OF SERVICE
0314A	CITY OF BISMARCK CITY PENSION PLAN	307	10 YEARS OF SERVICE
0314B	CITY OF BISMARCK POLICE PENSION PLAN	143	10 YEARS OF SERVICE
0335A	LYNN HAVEN POLICE PENSION PLAN	27	10 YEARS OF SERVICE
0337A	LYNN HAVEN GENERAL EMPLOYEE PENSION PLAN	74	10 YEARS OF SERVICE
0340A	A.S.G GENERAL EMPLOYEES PLAN	4,050	10 YEARS OF SERVICE
0372A	EMPLOYEES RETIREMENT SYSTEM OF RHODE ISLAND	26,738	10 YEARS OF SERVICE
0372B	MUNICIPAL EMPLOYEES RETIREMENT SYSTEM	6,983	10 YEARS OF SERVICE
0372C	STATE POLICE RETIREMENT BENEFITS TRUST	130	10 YEARS OF SERVICE
0381A	CITY OF ALAMEDA POLICE AND FIRE RETIREMENT PLAN 1079 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0381B	CITY OF ALAMEDA POLICE & FIRE PLAN 1082 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0388A	TOWN OF AVON POLICE RETIREMENT PLAN	25	10 YEARS OF SERVICE
0406A	ROSEVILLE CITY EMPLOYEE'S RETIREMENT PLAN	308	10 YEARS OF SERVICE
0413A	CITY OF CADILLAC POLICEMEN AND FIREMENT RETIREMENT SYSTEM	29	10 YEARS OF SERVICE
0414A	CITY OF BIRMINGHAM (MI) EMPLOYEES RETIREMENT SYSTEM	197	10 YEARS OF SERVICE
0423A	STATE POLICE RETIREMENT SYSTEM OF NEW JERSEY	2,623	10 YEARS OF SERVICE
0425A	PRISON OFFICERS' PENSION FUND OF NEW JERSEY	0	10 YEARS OF SERVICE
0437A	CITY OF WHEELING EMPLOYEES' RETIREMENT AND BENEFIT FUND	240	10 YEARS OF SERVICE
0465A	LONG BEACH TRANSIT PENSION PLAN - SALARIED EMPLOYEES	117	10 YEARS OF SERVICE
0786A	VIRGIN ISLANDS GOVERNMENT EMPLOYEES' RETIREMENT PLAN	16,861	10 YEARS OF SERVICE
0072A	ARKANSAS TEACHERS' RETIREMENT SYSTEM	58,528	10 YEARS OF SERVICE (7/1/98 -5 YEARS)
0278A	CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM *	715,105	10 YEARS OF SERVICE FOR TIER 2/5 YEARS SERVICE FOR TIER 1
0121A	PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM	112,044	10 YEARS OF SERVICE OR 3 YEARS AT AGE 60
0235B	NEBRASKA PERS STATE PATROL RETIREMENT PLAN	386	10 YEARS OF SERVICE, SCHEDULE OF 20% PER YEAR FROM 6-10 YRS
0057C	WYOMING PAID FIREMEN'S PLAN	282	10 YEARS OF SERVICE FOR PLAN A; 4 YRS FOR PLAN B
0195H	MONTANA VOLUNTEER FIREFIGHTERS COMPENSATION ACT	2,537	10 YRS
0677A	Springfield Police & Fire Retirement System	500	10 YRS
0569A	City of Kingsford Police and Firemen Retirement System	20	10 yrs service
0174I	Washington Teachers' Retirement System -- Plan 3	35,284	age 65 with at least 10 years of service
0619A	Holyoke Contributory Retirement System	1,407	10 yrs srv/age 55 20 yrs srv/any age
0124A	CITY OF MIAMI BEACH FIRE & POLICE SUPPLEMENTAL PLAN CITY PENSION FUND.	486	100% AFTER 10 YEARS
0497A	Macon Water Authority Employee Pension Plan	200	vested with 10 yrs. service
0060B	STATE COLLEGE BOROUGH - POLICE PLAN	60	12 YEARS
0193B	KANSAS POLICE AND FIRE RETIREMENT SYSTEM	6,560	15 YEARS
0407D	FLINT EMPLOYEES RETIREMENT SYSTEM - MEDICAL CENTER	2,220	15 YEARS (10 AT AGE 55)
0174H	WASHINGTON JUDICIAL RETIREMENT SYSTEM	38	15 YEARS OF SERVICE
0418A	POLICE RETIREMENT SYSTEM OF KANSAS CITY, MISSOURI	1,263	15 YEARS OF SERVICE
0376A	West Virginia Judges Retirement System (JRS)	52	16 years service
0183B	State of Michigan Defined Contribution Retirement Plan	234	2 years = 50% , 3 years = 75%, 4 yrs = 100%
0185B	State of Michigan Defined Contribution Retirement Plan	12,635	2 YOS = 50%, 3 YOS = 75%, 4 YOS = 100%
0009A	THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO	13,858	20 YEARS
0019A	OHIO STATE HIGHWAY PATROL RETIREMENT PLAN	1,545	20 YEARS
0759A	HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND	3,276	20 YEARS
0372D	JUDICIAL RETIREMENT BENEFITS TRUST	29	20 YEARS AGE 65, OR 15 YEARS AGE 75
0025A	CLAIR T. SINGERMAN EMPLOYEE RETIREMENT SYSTEM	374	20 YEARS AND AGE 55
0092A	FIRE AND POLICE PENSION FUND, SAN ANTONIO	3,500	20 YEARS OF SERVICE
0190A	TEXAS COUNTY AND DISTRICT RETIREMENT PLAN	90,633	8, 10, OR 12 YEARS, AT PARTICIPATING EMPLOYER'S ELECTION
0386A	COLORADO COUNTY OFFICIALS & EMPLOYEES RET. ASSOC. PLANS	15,000	IMMEDIATE; 5 YR; 10 YR-AS ADOPTED BY COUNTIES, MUNICI., & SPEC. DISTRICTS
0043A	MN STATE RETIREMENT SYSTEM GENERAL EMPLOYEES' PLAN	47,920	3 YEARS
0043B	MN STATE RETIREMENT SYSTEM STATE TROOPERS' RETIREMENT PLAN	830	3 YEARS
0043C	MN STATE RETIREMENT SYSTEM CORRECTIONAL EMPLOYEES' PLAN	2,882	3 YEARS
0133A	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - COORDINATED PLAN	135,560	3 YEARS
0133B	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - POLICE & FIRE PLAN	9,627	3 YEARS
0462B	Employees' Retirement System of Montgomery County (DC Plan) Retirement Savings Plan	2,544	3 YEARS
0405A	MINNESOTA TEACHERS RETIREMENT ASSOCIATION	70,508	3 YEARS OF ALLOWABLE SERVICE

0023A	BURLINGTON EMPLOYEES' RET. SYSTEM FOR POLICE AND FIRE	165	3 YEARS OF SERVICE
0023B	BURLINGTON EMPLOYEES' RET. SYSTEM FOR GENERAL EMPLOYEES	534	3 YEARS OF SERVICE
0055A	NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT	10,025	3 YEARS OF SERVICE
0178A	SOUTH DAKOTA RETIREMENT SYSTEM	34,180	3 YEARS OF SERVICE
0006A	PERS OF MISSISSIPPI GENERAL PLAN	151,790	4 YEARS
0057D	WYOMING PUBLIC EMPLOYEES' SYSTEM	31,492	4 YEARS
0165E	UTAH FIREFIGHTER'S RETIREMENT SYSTEM	1,452	4 YEARS
0165A	UTAH PUBLIC EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM	3,972	4 YEARS OF SERVICE
0165B	UTAH PUBLIC EMPLOYEES' NON-CONTRIBUTORY RETIREMENT SYSTEM	81,894	4 YEARS OF SERVICE
0165C	UTAH PUBLIC SAFETY PLAN	6,839	4 YEARS OF SERVICE
0165F	UTAH GOVERNORS AND LEGISLATIVE PENSION PLAN	88	4 YEARS OF SERVICE
0452A	Municipal Fire & Police Retirement System of Iowa	3,843	4 years of service
0278B	CALIFORNIA LEGISLATORS' RETIREMENT SYSTEM	28	4 YEARS OF SERVICE CREDIT
0066A	EMPLOYEES' RETIREMENT SYSTEM OF TEXAS	152,167	5 YEARS
0376C	West Virginia Public Safety Death, Disability and Retirement Plan (Trooper Plan A)	360	5 years
0211A	MENDOCINO COUNTY ERA	1,347	5 YEARS
0278C	JUDGES' RETIREMENT SYSTEM I (JRS I)	1,091	5 YEARS
0376E	West Virginia Teacher's Retirement System (TRS)	25,278	5 years
0376F	West Virginia Public Employees Retirement System (PERS)	33,976	5 years contributory service
0013A	PA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	234,210	5 YEARS OF SERVICE
0043D	MN STATE RETIREMENT SYSTEM JUDGES' RETIREMENT PLAN	282	5 YEARS OF SERVICE
0048B	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON HAZARDOUS	77,419	5 YEARS OF SERVICE
0048C	KENTUCKY EMPLOYEES' RETIRMENT SYSTEM - HAZARDOUS	4,007	5 YEARS OF SERVICE
0036A	MISSOURI LOCAL GOVERNMENT EMPLOYEES' RETIREMENT PLAN	28,491	5 YEARS OF SERVICE
0001A	PERS OF NEVADA GENERAL EMPLOYEES' PLAN	71,924	5 YEARS OF SERVICE
0001B	PERS OF NEVADA POLICE/FIRE EMPLOYEES' PLAN	8,910	5 YEARS OF SERVICE
0003A	SOUTH CAROLINA RETIREMENT SYSTEM - GENERAL PLAN	204,710	5 YEARS OF SERVICE
0003B	SOUTH CAROLINA RETIREMENT SYSTEM - POLICE OFFICERS' PLAN	24,827	5 YEARS OF SERVICE
0005B	RETIREMENT SYSTEMS OF ALABAMA JUDICIAL PLAN	351	5 YEARS OF SERVICE
0048D	KENTUCKY STATE POLICE RETIREMENT SYSTEM	1,023	5 YEARS OF SERVICE
0048E	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - HAZARDOUS	7,951	5 YEARS OF SERVICE
0058A	CHATHAM COUNTH EMPLOYEES' RETIREMENT PLAN	1,613	5 YEARS OF SERVICE
0060A	STATE COLLEGE BOROUGH - GENERAL PLAN	126	5 YEARS OF SERVICE
0062A	PORTLAND FIRE AND POLICE DISABILITY AND RETIREMENT FUND	1,546	5 YEARS OF SERVICE
0147A	PERS OF IDAHO - GENERAL MEMBERS	55,297	5 YEARS OF SERVICE
0147B	PERS OF IDAHO - POLICE/FIRE MEMBERS	5,091	5 YEARS OF SERVICE
0195G	MONTANA FIREFIGHTERS UNIFIED RETIREMENT SYSTEM	419	5 YEARS OF SERVICE
0376B	West Virginia Deputy Sheriff's Retirement System (DSRS)	468	5 years of service
0070A	TACOMA EMPLOYEES' RETIREMENT SYSTEM	2,814	5 YEARS OF SERVICE
0075A	Defined Benefit Plan for City Employees	6,655	5 YEARS OF SERVICE
0075B	City of Cincinnati Employees Retirement System	6,655	5 YEARS OF SERVICE
0079A	OHIO SCHOOL EMPLOYEES' RETIREMENT SYSTEM	113,811	5 YEARS OF SERVICE
0095A	FT. LAUDERDALE GENERAL EMPLOYEES RETIREMENT SYSTEM	1,363	5 YEARS OF SERVICE
0096A	TEACHER RETIREMENT SYSTEM OF TEXAS	0	5 YEARS OF SERVICE
0097A	LONG BEACH TRANSIT PENSION PLAN - CONTRACT EMPLOYEES	495	5 YEARS OF SERVICE
0104A	TENNESSEE CONSOLIDATED RETIREMENT SYSTEM	190,344	5 YEARS OF SERVICE
0107A	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM DEFINED BENEFIT PLAN	385,530	5 YEARS OF SERVICE
0109A	TUCSON SUPPLEMENTAL RETIREMENT SYSTEM	3,484	5 YEARS OF SERVICE
0111A	PUBLIC SCHOOL TEACHERS' PENSION & RETIREMENT FUND OF CHICAGO	35,400	5 YEARS OF SERVICE
0113A	VIRGINIA RETIREMENT SYSTEM	286,234	5 YEARS OF SERVICE
0125A	PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO	162,106	5 YEARS OF SERVICE
0126A	FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM	1,570	5 YEARS OF SERVICE
0127A	FAIRFAX COUNTY SUPPLEMENTAL RETIREMENT SYSTEM	13,044	5 YEARS OF SERVICE
0128A	FAIRFAX COUNTY POLICE OFFICERS' RETIREMENT SYSTEM	1,115	5 YEARS OF SERVICE
0137A	NEW YORK STATE TEACHERS' RETIREMENT SYSTEM	224,986	5 YEARS OF SERVICE
0138A	MISSOURI STATE EMPLOYEES' RETIREMENT PLAN	57,774	5 YEARS OF SERVICE

0138D	MISSOURI STATE EMPLOYEES' PLAN 2000	0	5 years of service
0143A	ST LOUIS COUNTY LIBRARY DISTRICT EMPLOYEES' PENSION PLAN	316	5 YEARS OF SERVICE
0144A	OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM	158,988	5 YEARS OF SERVICE
0146A	LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOC. PLAN A GENERAL	7,560	5 YEARS OF SERVICE
0147C	PERS OF IDAHO - FIREFIGHTERS RETIREMENT FUND (CLOSED PLAN)	129	5 YEARS OF SERVICE
0154A	NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM - GENERAL	17,231	5 YEARS OF SERVICE
0159A	FORT WORTH EMPLOYEES' RETIREMENT FUND	5,423	5 YEARS OF SERVICE
0174A	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN I	28,167	5 YEARS OF SERVICE
0174B	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN II	168,213	5 YEARS OF SERVICE
0174C	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN I	18,737	5 YEARS OF SERVICE
0174D	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN II/III	8,663	5 YEARS OF SERVICE
0174E	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN I	1,743	5 YEARS OF SERVICE
0174F	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN II	12,713	5 YEARS OF SERVICE
0174G	WASHINGTON STATE PATROL RETIREMENT SYSTEM	968	5 YEARS OF SERVICE
0177A	PUBLIC SCHOOL RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS	6,100	5 YEARS OF SERVICE
0194A	CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT PLAN - GENERAL	7,436	5 YEARS OF SERVICE
0194B	CONTRA COSTA COUNTY RETIREMENT SYSTEM - POLICE AND FIRE	1,674	5 YEARS OF SERVICE
0195A	MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	28,091	5 YEARS OF SERVICE
0195B	MONTANA GAME WARDENS AND PEACE OFFICERS RETIREMENT SYSTEM	494	5 YEARS OF SERVICE
0195C	MONTANA JUDGES RETIREMENT SYSTEM	46	5 YEARS OF SERVICE
0195D	MONTANA HIGHWAY PATROL OFFICERS RETIREMENT SYSTEM	190	5 YEARS OF SERVICE
0195E	MONTANA SHERIFFS RETIREMENT SYSTEM	611	5 YEARS OF SERVICE
0195F	MONTANA MUNICIPAL POLICE OFFICERS RETIREMENT SYSTEM	571	5 YEARS OF SERVICE
0202A	NEW YORK STATE & LOCAL EMPLOYEES' RET. SYSTEM - GENERAL	720,223	5 YEARS OF SERVICE
0202B	NEW YORK STATE & LOCAL POLICE AND FIRE RETIREMENT SYSTEM	31,955	5 YEARS OF SERVICE
0206A	MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	2,968	5 YEARS OF SERVICE
0221A	EAST BAY MUNICIPAL UTILITY DISTRICT	1,853	5 YEARS OF SERVICE
0224D	LA COUNTY METRO TRANSIT AUTH. - NON-CONTRACT EMPLOYEE RIP	427	5 YEARS OF SERVICE
0231A	AURORA GENERAL EMPLOYEES RETIREMENT PLAN	1,493	5 YEARS OF SERVICE
0236A	NEBRASKA DEFINED CONTRIBUTION PLANS - STATE EMPLOYEES	14,689	5 YEARS OF SERVICE
0236B	NEBRASKA DEFINED CONTRIBUTION PLANS - COUNTY EMPLOYEES	6,872	5 YEARS OF SERVICE
0245A	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS	72,365	5 YEARS OF SERVICE
0245B	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS (DC PLAN)	5,680	5 YEARS OF SERVICE
0277A	CITY OF ST. LOUIS EMPLOYEE RETIREMENT PLAN	5,948	5 YEARS OF SERVICE
0278D	CALIFORNIA JUDGES RETIREMENT FUND (II)	445	5 YEARS OF SERVICE
0291A	MILWAUKEE COUNTY EMPLOYEES' RETIREMENT PLAN	7,246	5 YEARS OF SERVICE
0303A	ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	0	5 YEARS OF SERVICE
0315A	LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM	24,234	5 YEARS OF SERVICE
0321A	SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	5,231	5 YEARS OF SERVICE
0325A	CITY OF GERMANTOWN EMPLOYEE RETIREMENT PLAN	377	5 YEARS OF SERVICE
0353A	DENVER EMPLOYEES RETIREMENT PLAN	10,821	5 YEARS OF SERVICE
0368A	Denver Public Schools Retirement System	7,182	5 YEARS OF SERVICE
0373A	PERA OF NEW MEXICO	54,647	5 YEARS OF SERVICE
0374A	STATE EMPLOYEES RETIREMENT SYSTEM OF MARYLAND	178,456	5 YEARS OF SERVICE
0379A	Kern County Employees' Retirement Association	7,109	5 years of service
0387A	CITY OF ENGLEWOOD NON-EMERGENCY PENSION PLAN	231	5 YEARS OF SERVICE
0387B	CITY OF ENGLEWOOD POLICE PENSION PLAN	11	5 YEARS OF SERVICE
0387C	CITY OF ENGLEWOOD FIREFIGHTER'S PENSION PLAN	10	5 YEARS OF SERVICE
0388B	TOWN OF AVON PUBLIC WORKS RETIREMENT PLAN	14	5 YEARS OF SERVICE
0388C	TOWN OF AVON NON-ORGANIZED RETIREMENT PLAN	32	5 YEARS OF SERVICE
0388D	TOWN OF AVON BOARD OF EDUCATION RETIREMENT PLAN	38	5 YEARS OF SERVICE
0388E	Town of Avon 401(a) f.t.Employees' Plan	26	5 YEARS OF SERVICE
0419A	CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF K.C., MO.	583	5 YEARS OF SERVICE
0422A	MONTANA TEACHERS' RETIREMENT SYSTEM	18,205	5 YEARS OF SERVICE
0424A	JUDICIAL RETIREMENT SYSTEM OF NEW JERSEY	414	5 YEARS OF SERVICE
0449A	EMPLOYEES' RETIREMENT SYSTEM OF TULSA COUNTY, OKLAHOMA	1,389	5 YEARS OF SERVICE

0453A	CITY OF ARNOLD (MO) POLICE PENSION PLAN	46	5 YEARS OF SERVICE
0454A	SAN BERNARDINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION	15,858	5 YEARS OF SERVICE
0462A	Employees' Retirement System of Montgomery County	6,396	5 YEARS OF SERVICE
0737A	Town of Suffield Pension Plan	138	5 years of service
0146D	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN D: GENERAL	31,300	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146F	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN A SAFETY	2,005	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146G	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B SAFETY	9,259	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146B	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B: GENERAL	556	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0146C	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN C: GENERAL	413	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0063A	TEACHERS' RETIREMENT SYSTEMS OF ILLINOIS	144,975	5 YEARS OF SERVICE; ALSO SINGLE-SUM BENEFIT PAYABLE AT 65 IF < 5 YEARS
0034A	ARKANSAS LOCAL POLICE & FIRE RETIREMENT SYSTEM	7,983	5 YRS
0700A	Defined Benefit - Douglas County Employees Retirement Trust	0	5 yrs
0542A	City of St Petersburg Employee Retirement System	1,796	5 yrs of service
0160A	VIA METROPOLITAN TRANSIT RETIREMENT PLAN	1,409	50% VESTED AT 5 YEARS, GRADED TO 100% AT 10 YEARS OF SERVICE
0043E	MN STATE RETIREMENT SYSTEM LEGISLATORS' RETIREMENT PLAN	173	6 YEARS
0057A	WYOMING WARDEN AND PATROL RETIREMENT PLAN	260	6 YEARS
0165D	UTAH JUDGES' RETIREMENT SYSTEM	104	6 YEARS OF SERVICE
0310A	Iowa Judicial Retirement Fund	194	6 years of service
0007C	ILLINOIS JUDGES' RETIREMENT SYSTEM	908	6 YEARS OF SERVICE (AGE 62); 10 YEARS OF SERVICE (AGE 60); 2 YEARS OF SERVICE (AC
0145A	PERS OF OHIO - STATE AND LOCAL DIVISION	392,530	60 CONTRIBUTING MONTHS
0145B	PERS OF OHIO - LAW ENFORCEMENT DIVISION	7,389	60 CONTRIBUTING MONTHS
0156A	WICHITA EMPLOYEES' RETIREMENT PLAN	1,018	7 YEARS OF SERVICE
0156C	Wichita Employees' Retirement System Plan 3	878	7 years of service
0217A	LANSING BOARD OF WATER AND LIGHT EMPLOYEES'DEFINED BENEFIT PLAN	121	7 YEARS OF SERVICE
0217B	LANSING BOARD OF WATER AND LIGHT DEFINED CONTRIBUTION PENSION PLANS	636	7 YEARS OF SERVICE
0542B	City of St Petersburg Firefighters Retirement System	298	7 years of service
0542C	City of St Petersburg Police Officers Retirement System	457	7 years of service
0371A	SHELBY COUNTY RETIREMENT SYSTEM	6,271	7 1/2 YEARS OF SERVICE
0007A	ILLINOIS STATE EMPLOYEES' RETIREMENT SYSTEM	80,676	8 YEARS
0037A	KALAMAZOO COUNTY EMPLOYEES' RETIREMENT PLAN	1,064	8 YEARS
0043F	MN STATE RET. SYSTEM ELECTIVE OFFICERS' RET. PLAN	0	8 YEARS
0064D	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - LEGISLATIVE	210	8 YEARS
0110A	ILLINOIS MUNICIPAL RETIREMENT FUND	157,816	8 YEARS
0169A	OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM	42,886	8 YEARS
0173A	WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM	5,407	8 YEARS
0183A	MICHIGAN JUDGES RETIREMENT SYSTEM	399	8 YEARS
0007B	ILLINOIS GENERAL ASSEMBLY RETIREMENT SYSTEM	181	8 YEARS (AGE 55); 4 YEARS (AGE 62)
0289A	GOGEBIC COUNTY EMPLOYEES RETIREMENT PLAN	375	8 YEARS OF SERVICE
0304A	ALASKA TEACHERS' RETIREMENT SYSTEM	9,164	8 YEARS OF SERVICE
0329A	CITY OF GRAND RAPIDS GENERAL EMPLOYEES' RETIREMENT SYSTEM	1,176	8 YEARS OF SERVICE
0451A	ELK COUNTY EMPLOYEES' RETIREMENT PLAN	132	8 YEARS OF SERVICE
0474A	VILLAGE OF MOUNT PROSPECT-POLICE	82	8 YEARS OF SERVICE
0195I	MONTANA PUBLIC EMPLOYEES' RETIREMENT DEFERRED COMPENSATION	7,048	ACCOUNT BALANCES ARE FULLY VESTED AT TIME OF DEPOSIT
0087B	NEW HAMPSHIRE RETIREMENT SYSTEM - TEACHERS' PLAN	14,114	AGE 60 W/ ANY YEARS
0235A	NEBRASKA PERS SCHOOL PLAN	34,718	AGE 65 WITH 5 YEARS CREDITED SERVICE; AGE 65 REGARDLESS OF SERVICE
0426A	CONSOLIDATED POLICE & FIREMEN'S PENSION FUND OF NEW JERSEY (CPFPF)	43,331	CLOSED PLAN, NO ACTIVE MEMBERS
0098A	WISCONSIN RETIREMENT SYSTEM	258,195	IMMEDIATE VESTING
0107B	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM CASH BALANCE PROGRAM	9,552	IMMEDIATE VESTING
0138B	MISSOURI ADMINISTRATIVE LAW JUDGES' RETIREMENT PLAN	52	IMMEDIATE VESTING
0138C	MISSOURI REGULAR JUDGES' RETIREMENT PLAN	375	IMMEDIATE VESTING
0235C	NEBRASKA PERS JUDGES' RETIREMENT PLAN	157	IMMEDIATE VESTING
0505A	VILLAGE OF BOLINGBROOK POLICE PENSION PLAN	86	IMMEDIATE VESTING
0542D	City of St Petersburg	100	immediate vesting
0057B	WYOMING VOLUNTEER FIREMEN'S PLAN	2,118	MUST BE VOLUNTEER UNTIL AGE 60
0090A	Charlotte Firefighters' Retirement Plan	0	
0534A	Miami Shores General Employees Retirement Plan	0	

0650A	Fairfax County Water Authority Retirement Plan	0
0655A	Spokane Employees' Retirement Plan	0
	Number of plans with vesting requirements of 10 or more years	96
	Active members of plans with vesting requirements of 10 or more years	3,662,540
	Number of plans with vesting requirements of less than 10 years	172
	Active members of plans with vesting requirements of less than 10 years	5,988,342
	Number of plans with vesting requirements of 5 years or less	132
	Active members of plans with vesting requirements of 5 years or less	4,908,400

* About 50,000 members in Tier 2

Select Committee on Pension Policy

Plan 3 Vesting

Supplemental Summary

(November 4, 2004)

Costs (in Millions):	Plan 3 Vesting Threshold age = 50				Plan 3 Vesting Threshold age = 45			
	PERS	TRS	SERS	Total	PERS	TRS	SERS	Total
Increase in Contribution Rates								
Employee Aggregate (Plan 2 only)	0.00%	0.01%	0.02%		0.00%	0.01%	0.04%	
Employer Aggregate	0.00%	0.01%	0.02%		0.00%	0.02%	0.04%	
New Entrants Employee (Plan 2 only)*	0.01%	N/A	N/A		0.01%	N/A	N/A	
New Entrants Employer *	0.01%	0.01%	0.06%		0.01%	0.03%	0.12%	
2005-2007								
State:								
General Fund	\$0.1	\$0.7	\$0.4	\$1.2	\$0.1	\$1.5	\$0.9	\$2.5
Non-General Fund	<u>\$0.1</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.1</u>	<u>\$0.1</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.1</u>
Total State	\$0.2	\$0.7	\$0.4	\$1.3	\$0.2	\$1.5	\$0.9	\$2.6
Local Government	\$0.2	\$0.1	\$0.4	\$0.7	\$0.2	\$0.3	\$0.8	\$1.3
Total Employer	\$0.4	\$0.8	\$0.8	\$2.0	\$0.4	\$1.8	\$1.7	\$3.9
Total Employee	\$0.2	\$0.1	\$0.2	\$0.5	\$0.2	\$0.1	\$0.3	\$0.6
2005-2030								
State:								
General Fund	\$6.3	\$17.0	\$21.6	\$44.9	\$6.3	\$45.7	\$43.3	\$95.3
Non-General Fund	<u>\$10.4</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$10.4</u>	<u>\$10.4</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$10.4</u>
Total State	\$16.7	\$17.0	\$21.6	\$55.3	\$16.7	\$45.7	\$43.3	\$105.7
Local Government	\$14.9	\$3.5	\$19.2	\$37.6	\$14.9	\$9.3	\$38.4	\$62.6
Total Employer	\$31.6	\$20.5	\$40.8	\$92.9	\$31.6	\$55.0	\$81.7	\$168.3
Total Employee	\$15.8	\$0.6	\$1.3	\$17.7	\$15.8	\$0.6	\$2.6	\$19.0

*The increases in contribution rates for future new entrants are based on the increase in the Entry Age Normal Cost.

Select Committee on Pension Policy

Plan 3 Vesting

Alternative Options

(November 8, 2004)

These alternative options would impact the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five for active members following the attainment of a certain age. The costs shown are for 5 year vesting if age 50 or over, and 5 year vesting if age 45 or over.

Estimated Fiscal Impact (in Millions):	Five Year Vesting If age 50+				Five Year Vesting If age 45+			
	PERS	TRS	SERS	Total	PERS	TRS	SERS	Total
Increase in Contribution Rates (Existing Members)								
Employee Aggregate (Plan 2 only)	0.00%	0.01%	0.02%		0.00%	0.01%	0.04%	
Employer Aggregate	0.00%	0.01%	0.02%		0.00%	0.02%	0.04%	
Increase in Contribution Rates (New Entrants)								
Employee (Plan 2 only)*	0.01%	N/A	N/A		0.01%	N/A	N/A	
Employer *	0.01%	0.01%	0.06%		0.01%	0.03%	0.12%	
2005-2007								
State:								
General Fund	\$0.1	\$0.7	\$0.4	\$1.2	\$0.1	\$1.5	\$0.9	\$2.5
Non-General Fund	<u>\$0.1</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.1</u>	<u>\$0.1</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.1</u>
Total State	\$0.2	\$0.7	\$0.4	\$1.3	\$0.2	\$1.5	\$0.9	\$2.6
Local Government	\$0.2	\$0.1	\$0.4	\$0.7	\$0.2	\$0.3	\$0.8	\$1.3
Total Employer	\$0.4	\$0.8	\$0.8	\$2.0	\$0.4	\$1.8	\$1.7	\$3.9
Total Employee	\$0.2	\$0.1	\$0.2	\$0.5	\$0.2	\$0.1	\$0.3	\$0.6

Estimated Fiscal Impact (in Millions):	Five Year Vesting If age 50+				Five Year Vesting If age 45+			
	PERS	TRS	SERS	Total	PERS	TRS	SERS	Total
2005-2030								
State:								
General Fund	\$6.3	\$17.0	\$21.6	\$44.9	\$6.3	\$45.7	\$43.3	\$95.3
Non-General Fund	<u>\$10.4</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$10.4</u>	<u>\$10.4</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$10.4</u>
Total State	\$16.7	\$17.0	\$21.6	\$55.3	\$16.7	\$45.7	\$43.3	\$105.7
Local Government	\$14.9	\$3.5	\$19.2	\$37.6	\$14.9	\$9.3	\$38.4	\$62.6
Total Employer	\$31.6	\$20.5	\$40.8	\$92.9	\$31.6	\$55.0	\$81.7	\$168.3
 Total Employee	 \$15.8	 \$0.6	 \$1.3	 \$17.7	 \$15.8	 \$0.6	 \$2.6	 \$19.0

**The increases in contribution rates for future new entrants are based on the increase in the Entry Age Normal Cost.*

We assume that there would not be a modification of the employee/employer level of cost sharing as defined in the actuarial funding chapter - Chapter 41.45 RCW. As a result, the cost of either of these Plan 3 benefit enhancements would be shared equally among Plan 2/3 employers and Plan 2 employees.

1 AN ACT Relating to vesting after five years of service in the
2 defined benefit portion of the public employees' retirement system, the
3 school employees' retirement system, and the teachers' retirement
4 system plan 3; and amending RCW 41.32.875, 41.35.680, and 41.40.820.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 41.32.875 and 2000 c 247 s 903 are each amended to
7 read as follows:

8 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
9 and who has((÷

10 ~~(a))~~ completed ~~((ten))~~ five service credit years~~((÷or~~
11 ~~(b) Completed five service credit years, including twelve service~~
12 ~~credit months after attaining age fifty four; or~~

13 ~~(c))~~ or completed five service credit years by July 1, 1996, under
14 plan 2 and who transferred to plan 3 under RCW 41.32.817~~((÷))~~
15 shall be eligible to retire and to receive a retirement allowance
16 computed according to the provisions of RCW 41.32.840.

17 (2) EARLY RETIREMENT. Any member who has attained at least age
18 fifty-five and has completed at least ten years of service shall be
19 eligible to retire and to receive a retirement allowance computed

1 according to the provisions of RCW 41.32.840, except that a member
2 retiring pursuant to this subsection shall have the retirement
3 allowance actuarially reduced to reflect the difference in the number
4 of years between age at retirement and the attainment of age sixty-
5 five.

6 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at
7 least thirty service credit years and has attained age fifty-five shall
8 be eligible to retire and to receive a retirement allowance computed
9 according to the provisions of RCW 41.32.840, except that a member
10 retiring pursuant to this subsection shall have the retirement
11 allowance reduced by three percent per year to reflect the difference
12 in the number of years between age at retirement and the attainment of
13 age sixty-five.

14 **Sec. 2.** RCW 41.35.680 and 2000 c 247 s 906 are each amended to
15 read as follows:

16 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
17 and who has((÷

18 ~~(a))~~ completed ~~((ten))~~ five service credit years~~((÷or~~

19 ~~(b) Completed five service credit years, including twelve service~~
20 ~~credit months after attaining age fifty four; or~~

21 ~~(c))~~ or completed five service credit years by September 1, 2000,
22 under the public employees' retirement system plan 2 and who
23 transferred to plan 3 under RCW 41.35.510((÷))
24 shall be eligible to retire and to receive a retirement allowance
25 computed according to the provisions of RCW 41.35.620.

26 (2) EARLY RETIREMENT. Any member who has attained at least age
27 fifty-five and has completed at least ten years of service shall be
28 eligible to retire and to receive a retirement allowance computed
29 according to the provisions of RCW 41.35.620, except that a member
30 retiring pursuant to this subsection shall have the retirement
31 allowance actuarially reduced to reflect the difference in the number
32 of years between age at retirement and the attainment of age sixty-
33 five.

34 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at
35 least thirty service credit years and has attained age fifty-five shall
36 be eligible to retire and to receive a retirement allowance computed
37 according to the provisions of RCW 41.35.620, except that a member

1 retiring pursuant to this subsection shall have the retirement
2 allowance reduced by three percent per year to reflect the difference
3 in the number of years between age at retirement and the attainment of
4 age sixty-five.

5 **Sec. 3.** RCW 41.40.820 and 2000 c 247 s 309 are each amended to
6 read as follows:

7 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
8 and who has((÷

9 ~~(a)) completed ((ten)) five service credit years((÷or~~
10 ~~(b) Completed five service credit years, including twelve service~~
11 ~~credit months after attaining age fifty-four; or~~

12 ~~(c)) or completed five service credit years by the transfer~~
13 payment date specified in RCW 41.40.795, under the public employees'
14 retirement system plan 2 and who transferred to plan 3 under RCW
15 41.40.795((÷))

16 shall be eligible to retire and to receive a retirement allowance
17 computed according to the provisions of RCW 41.40.790.

18 (2) EARLY RETIREMENT. Any member who has attained at least age
19 fifty-five and has completed at least ten years of service shall be
20 eligible to retire and to receive a retirement allowance computed
21 according to the provisions of RCW 41.40.790, except that a member
22 retiring pursuant to this subsection shall have the retirement
23 allowance actuarially reduced to reflect the difference in the number
24 of years between age at retirement and the attainment of age sixty-
25 five.

26 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at
27 least thirty service credit years and has attained age fifty-five shall
28 be eligible to retire and to receive a retirement allowance computed
29 according to the provisions of RCW 41.40.790, except that a member
30 retiring pursuant to this subsection shall have the retirement
31 allowance reduced by three percent per year to reflect the difference
32 in the number of years between age at retirement and the attainment of
33 age sixty-five.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:

CODE:

DATE:

BILL NUMBER:

Office of the State Actuary

035

11/02/04

Z-0180.1/Z-0181.1

SUMMARY OF BILL:

This bill impacts the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five.

Effective Date: 90 days after session.

CURRENT SITUATION:

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

MEMBERS IMPACTED:

The counts of active vested and non-vested members are shown below. Not included in these counts are terminated non-vested members who would add to the total should they become re-employed. As of the most recent valuation, 52,612 out of 92,521 Plan 3 members had less than 10 years of service or were not vested in Plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS, or did not have 5 years of service including 12 months after age 54. Any of these non-vested members would be affected by this bill if they were to leave public employment with between 5 to 10 years of service and before they earned 12 months of service after age 54.

System/ Plan	Vested	Non-Vested
PERS 3	9,771	7,777
TRS 3	18,646	28,617
SERS 3	11,492	16,218

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the affected systems by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>		Current	Increase	Total
Actuarial Present Value of Projected Benefits				
(The Value of the Total Commitment to all Current Members)				
	PERS 2/3	\$ 14,278	\$ 5	\$ 14,283
	TRS 2/3	\$ 5,220	\$ 12	\$ 5,232
	SERS 2/3	\$ 2,138	\$ 8	\$ 2,146
Unfunded Actuarial Accrued Liability		NA	NA	NA
(The Portion of the Plan 1 Liability that is Amortized at 2024)				
Unfunded Liability (PBO)				
(The Value of the Total Commitment to all Current Members Attributable to Past Service)				
	PERS 2/3	\$ (3,184)	\$ 2	\$ (3,182)
	TRS 2/3	\$ (1,397)	\$ 6	\$ (1,391)
	SERS 2/3	\$ (425)	\$ 4	\$ (421)

Increase in Contribution Rates:

(Effective 09/01/2005)

Employee (plan 2 members only)	PERS 2/3	0.01%
	TRS 2/3	0.03%
	SERS 2/3	0.05%
Employer State	PERS 2/3	0.01%
	TRS 2/3	0.03%
	SERS 2/3	0.06%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS	TRS	SERS	Total
2005-2007				
State:				
General Fund	\$0.5	\$2.4	\$1.5	\$4.4
Non-General Fund	<u>0.8</u>	<u>0.0</u>	<u>0.0</u>	<u>0.8</u>
Total State	1.3	2.4	1.5	5.2
Local Government	1.2	0.5	1.3	3.0
Total Employer	2.5	2.9	2.8	8.2
 Total Employee	 \$1.5	 \$0.3	 \$0.5	 \$2.3
2007-2009				
State:				
General Fund	\$0.7	\$2.9	\$2.0	\$5.6
Non-General Fund	<u>1.2</u>	<u>0.0</u>	<u>0.0</u>	<u>1.2</u>
Total State	1.9	2.9	2.0	6.8
Local Government	1.7	0.6	1.8	4.1
Total Employer	3.6	3.5	3.8	10.9
 Total Employee	 \$2.1	 \$0.3	 \$0.4	 \$2.8
2005-2030				
State:				
General Fund	\$27.3	\$85.9	\$71.7	\$184.9
Non-General Fund	<u>45.1</u>	<u>0.0</u>	<u>0.0</u>	<u>45.1</u>
Total State	72.4	85.9	71.7	230.0
Local Government	64.2	17.6	63.6	145.4
Total Employer	136.6	103.5	135.3	375.4
 Total Employee	 \$69.8	 \$1.8	 \$3.3	 \$74.9

State Actuary's Comments:

This bill does not modify the employee/employer level of cost sharing as defined in the actuarial funding chapter - Chapter 41.45 RCW. As a result, the cost of this Plan 3 benefit enhancement is shared equally among Plan 2/3 employers and Plan 2 employees.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers Retirement System, School Employee's Retirement System, and Public Employee's Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: None.
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2005 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. The entry age normal cost increase for the bill is 0.04% for PERS Plan 2 members, 0.04% for PERS employers, 0.06% for TRS employers, and 0.20% for SERS employers. The entry age normal cost increase was used to determine the increase in funding expenditures for future new entrants.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all Plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by Plan assets.